Decision ______________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U338E) for Approval of the Hoover Electric Service Contract and the Restated and Amended Implementation Agreement.	Application 16-08-017 (Filed August 29, 2016)

DECISION APPROVING HOOVER ELECTRIC SERVICE CONTRACT AND RESTATED AND AMENDED IMPLEMENTATION AGREEMENT

Summary

This decision approves the proposed Hoover Electric Service Contract and the Restated and Amended Implementation Agreement and authorizes Southern California Edison Company (SCE) to recover in rates the payments made pursuant to the Hoover Electric Service Contract and the Restated and Amended Implementation Agreement subject to SCE's prudent administration of the contracts. This proceeding is closed.

1. Procedural Background

On August 29, 2016, Southern California Edison Company (SCE) filed an application requesting approval of its Hoover Electric Service Contract (ESC) and the Restated and Amended Implementation Agreement (Agreement) and authority to recover the costs of the ESC and Agreement in rates. The application was noticed on the Daily Calendar on August 31, 2016. No protests were filed.

2. Overview of the Application

SCE has been receiving capacity and energy from the Hoover Dam for nearly 80 years. The Boulder Canyon Project Act of 1928, which authorized construction of the Hoover Dam, also authorized contracts for electrical energy generated by the dam to provide revenue to recover the government's investment in the construction of the dam. Under the 1928 Act, the three principal allottees of power from the Hoover Dam were the Metropolitan Water District of Southern California, the City of Los Angeles, and SCE. The Bureau of Reclamation (Reclamation) manages long-term water planning for the lower Colorado River system, through water releases that take into consideration operational, contractual, and international treaty obligations. (Exhibit SCE-01 at 4.) The Hoover Powerplant is operated and maintained by Reclamation and Reclamation is contractually responsible "to keep the Hoover Dam and Powerplant operational in accordance with regulatory, safety, and security requirements." (Exhibit SCE-01 at 5.) Western Area Power Authority (Western) "is responsible for the operation, maintenance and repair of the federal electric delivery system and for most aspects of the administration of the Hoover ESC." (Exhibit SCE-01 at 5.)

SCE is the only non-governmental entity, and one of 15 contractors, with a statutory allocation of Hoover power under the current Hoover contract, which expires on September 30, 2017. The Hoover Power Allocation Act of 2011[1] entitles SCE to receive up to 280.245 Megawatts (MW) of capacity and 238,160 MWh of firm energy, which represent 13.5123% of the 2,074 MW generating

[1] 43 U.S.C. §§ 619a *et seq.*

capacity and 5.2609% of the total firm energy of 4,527,001 MWh, respectively, of Hoover Powerplant output.

SCE seeks approval of the ESC and Agreement, which will secure its allocation of Hoover power for the 50-year renewal term, thereby preserving this resource for the benefit of its customers. The ESC specifies the terms and conditions under which SCE will receive its energy and capacity allocations from the Hoover Powerplant. The Agreement governs the administration of the electric service agreements for all Hoover contractors, including SCE.

3. Issues Before the Commission

The Commission must decide the following issues:

a. Whether to find the Hoover ESC compliant with the Emissions Performance Standard;

b. Whether the Hoover ESC and the Agreement, and SCE's entry into them, is reasonable and whether they should be approved; and

c. Whether payments made by SCE pursuant to the Hoover ESC and the Agreement are recoverable in full by SCE through the ERRA proceeding, subject only to SCE's prudent administration.

4. Is the Hoover ESC Compliant with the Emissions Performance Standard?

In 2006, the California Legislature passed Senate Bill (SB) 1368 which added Public Utilities Code Section 8341(a) to ensure that long-term financial commitments comply with adopted greenhouse gas (GHG) emission performance standards (EPS). The Commission instituted Rulemaking 06-04-009 to establish a GHG EPS for carbon dioxide (CO2):

> SB 1368 describes what types of generation and financial commitments will be subject to the EPS ("covered procurements"). Under SB 1368, the EPS applies to "baseload generation," but the requirement to comply with it is

> triggered only if there is a "long-term financial commitment" by an LSE. The statute defines baseload generation as "electricity generation from a powerplant that is designed and intended to provide electricity at an annualized plant capacity factor of at least 60%." . . . For baseload generation procured under contract, there is a long-term commitment when the LSE enters into "a new or renewed contract with a term of five or more years." (D.07-01-039 at 4.)

The Hoover ESC has a term that is greater than five years, and therefore qualifies as a long-term financial commitment, but the Hoover Powerplant has had an annualized capacity factor between approximately 18% and 36% for the past 25 years, averaging about 20% for the past 10 years. (Exhibit SCE-01 at 26.) Therefore, the Hoover Powerplant is not baseload generation and the EPS rules do not apply to production at Hoover Powerplant.

However, the Hoover ESC allows Western (the ESC administrator) to satisfy its power delivery obligations by use of generation from the Parker-Davis Project (a hydroelectric project, which includes the Davis Dam and Powerplant and the Parker Dam and Powerplant), or other sources of generation available to Western, which could trigger the EPS requirements. The Hoover ESC limits on the use of system power track EPS requirements for purchases from baseload facilities. Under those limitations, Western is permitted to substitute power from sources other than the Hoover Powerplant and the Parker-Davis Project only when required to meet the statutory requirements for water releases set forth in the Hoover ESC and only in quantities that do not exceed 15% of the forecast energy production of the Hoover Powerplant over the term of the contract. (Exhibit SCE-01 at 26-27.) We agree with SCE that these limitations put the contract in compliance with the "substitute energy purposes" requirements established in D.07-01-039 at 148 and thus find that the ESC complies with the Emission Performance Standard.

5. Are the Hoover ESC and the Agreement, and SCE's Entry Into Them, Reasonable and Should They Be Approved?

Because the Hoover Powerplant is a federal facility, the rates for its power are established through a ratemaking process in accordance with 10 C.F.R. part 904 and must be sufficient to recover an annual revenue requirement. For fiscal year 2017, costs for the energy and capacity allocated to SCE are $9.83/megawatt-hour (MWh) and $1.92/kilowatt-month respectively. Contract costs are escalated annually for the 50 year contract term. Contract costs for the October 1, 2017-September 30, 2016 fiscal year are estimated to be $8.63 million. (Exhibit SCE-01 at 13.)

In order to evaluate whether to enter into the Hoover ESC, SCE prepared a market outlook, a valuation, and scenario analyses. The market outlook and valuation methodologies and their results, as well as the scenario analyses, are set forth in SCE's supporting testimony (Exhibits SCE-01 and SCE-01C). The price forecast methodology SCE used is consistent with that used by SCE in other energy contract valuations, such as those supporting SCE's Local Capacity Requirements Request for Offers (RFOs), Combined Heat and Power RFOs, Renewable Portfolio Standard solicitations, and All-Source RFOs for electrical energy and resource adequacy. Natural gas and greenhouse gas compliance prices were integrated into the energy and ancillary services price forecasts. SCE conducted a net present value analysis for the Hoover ESC consistent with the valuations performed in other energy contract valuations as described above.

The Hoover ESC benefits include electrical energy, ancillary services, and resource adequacy values. SCE analyzed various benefit scenarios based on water targets, price forecast, and historical performance data. Expected contract costs include SCE's share of energy and capacity costs, the Lower Colorado River Basin Development Fund Contribution Charge, the Lower Colorado River Multi-Species Conservation Program costs, debt equivalence, and adjustments to true up cost estimates to account for actual delivery and other nominal costs. Under most expected scenarios, the Hoover ESC is highly cost-effective. Even under a scenario where resource adequacy capacity was modeled as zero, and energy and ancillary service values fall substantially, the expected overall value of the Hoover ESC is still positive on a net present value basis. (Exhibit SCE-01 at 15.)

However, the Hoover ESC carries a 50-year term and SCE is obligated to pay its share of the going-forward costs, even if the Hoover Powerplant is incapable of sustaining its forecasted level of hydro-electrical generation due to water levels at Lake Mead. To understand this potential risk, SCE's scenario analysis calculated the break-even shut down year assuming minimum power operations due to water constraints beginning in the first year of the contract. As long as the Hoover Powerplant is able to produce at minimum power levels (total output of 696 MW out of rated capacity of 2,074 MW) through the identified shut down year, which is specified under seal, the contract is expected to break-even in terms of net present value.

"The renewed Hoover ESC is based on the current contract, but includes negotiated provisions that provide flexibility to respond and adapt to future competitive energy markets, to accommodate new or expanded Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs), and to use current and future [ancillary services] AS products." (Exhibit SCE-01 at 17.) The Hoover ESC and the Agreement became effective October 1, 2016, one year in advance of power deliveries under the contract, in order for the complex set of governmental parties and contractors to support the October 1, 2017 date for initial service through funding of working capital and other operating costs. The term runs through September 30, 2067. The executed contract contains a provision that allows SCE to withdraw from the Hoover ESC if the Commission has not approved the Hoover ESC within 365 days of this application being filed. (Exhibit SCE-02 at 5-6.) The Agreement describes the joint administration of the Hoover ESC for all contractors that are allocated output from the Hoover Powerplant, covering subjects like annual planning and budgeting, committee roles and responsibilities, future projects at the dam, and meet and confer obligations.

Based on our review of the testimony, we agree with SCE "that the Hoover ESC is not likely to become an uneconomic resource over the course of the contract." (Exhibit SCE-01 at 16.) In addition, the terms and conditions of the Hoover ESC and the Agreement appear to reasonably protect SCE's ratepayers through clearly defining the roles and responsibilities of all parties. The Hoover ESC and Agreement are reasonable.

6. Should Payments Made by SCE Pursuant to the Hoover ESC and the Agreement Be Recoverable in Full in the ERRA Proceeding, Subject Only to SCE's Prudent Administration?

SCE plans to include a forecast of costs related to the Hoover ESC in its annual Energy Resource Recovery Account (ERRA) forecast proceeding, consistent with how it typically recovers its forecast of fuel and purchased power expenses, and contract management costs. Consistent with Commission treatment of costs recorded for pre-approved contracts, SCE proposes that the Commission's review of the Hoover ESC recorded costs be limited to ensuring that the recorded costs are associated with the Hoover ESC activities as defined and adopted by the Commission in this proceeding. (Exhibit SCE-01 at 29.)

The review standard SCE proposes is consistent with past Commission practice and we approve it.

7. Conclusion

Power from the Hoover Powerplant is an important resource for the California market because of its quick-start dispatch capabilities and zero-emission profile, which is especially important as California's power supply draws from more intermittent resources. Under all but the most extreme scenarios, the Hoover ESC is highly cost effective on a net present value basis. SCE has demonstrated that the requested contract and amended and restated implementation agreement are reasonable and should be approved. The proposed ratemaking to recover the costs of the contract and agreement through rates is reasonable and should be approved. For these reasons, we approve the proposed Hoover Electric Service Contract and the Restated and Amended Implementation Agreement, and authorize SCE to recover in rates the payments made pursuant to the contract and amendment subject to SCE's prudent administration of the contracts.

8. Safety Considerations

Reclamation is contractually responsible "to keep the Hoover Dam and Powerplant operational in accordance with regulatory, safety, and security requirements." (Exhibit SCE-01 at 5.) The Hoover Powerplant is an existing facility, that is already operating, and approval of the Hoover ESC, which effectively extends the contract, does not raise any incremental safety considerations.

9. Exhibit Identification and Confidential Treatment

SCE's application included the following exhibits:

SCE-01: Testimony of SCE in Support of its Application

SCE-02: Appendix B- Hoover Electric Service Contract

SCE-03: Appendix C- Amended and Restated Implementation Agreement

SCE's testimony includes confidential materials and therefore a public (SCE-01) and confidential (SCE-01C) were submitted. Consistent with the requirements of D.06-06-066, SCE-01 includes a declaration setting forth which data is proposed for confidential treatment and why.

Good cause being shown, Exhibit SCE-01C is admitted under seal for duration consistent with the timing specified in Exhibit SCE-1: A-5 through A-6. All four marked exhibits (SCE-01, SCE-01C, SCE-02, and SCE-03) are received into evidence as of the date of this decision.

10. Categorization and Need for Hearing

In Resolution ALJ 176-3384, dated September 15, 2016, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were necessary. Since no protests were filed, this proceeding is uncontested and the decision grants the relief requested by the applicant, no hearings are necessary. We confirm the categorization as ratesetting, and change the hearing determination to no hearings are necessary.

11. Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Pub. Util. Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

12. Assignment of Proceeding

Michael Picker is the assigned Commissioner and Michelle Cooke is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. SCE's August 29, 2016 application for approval of its Hoover Electric Service Contract and the Restated and Amended Implementation Agreement is uncontested.
2. The Hoover ESC has a term that is greater than five years, and therefore qualifies as a long-term financial commitment, but the Hoover Powerplant has had an annualized capacity factor between approximately 18% and 36% for the past 25 years, averaging about 20% for the past ten years.
3. Western is permitted to substitute power from sources other than the Hoover Powerplant and the Parker-Davis Project only when required to meet the statutory requirements for water releases set forth in the Hoover ESC and only in quantities that do not exceed 15% of the forecast energy production of the Hoover Powerplant over the term of the contract.
4. For fiscal year 2017, costs for the energy and capacity allocated to SCE are $9.83/MWh and $1.92/kilowatt-month respectively.
5. Contract costs for the October 1, 2017-September 30, 2016 fiscal year are estimated to be $8.63 million.
6. The cost recovery review standard SCE proposes is consistent with past Commission practice.
7. Under most expected scenarios, the Hoover ESC is highly cost-effective.
8. Even under a scenario where resource adequacy capacity was modeled as zero, and energy and ancillary service values fall substantially, the expected overall value of the Hoover ESC is still positive on a net present value basis.

9. As long as the Hoover Powerplant is able to produce at minimum power levels (total output of 696 MW out of rated capacity of 2,074 MW) through the identified shut down year, which is specified under seal, the contract is expected to break-even in terms of net present value.

10. The application raises no concerns that the ESC and Agreement authorized herein would impede or prevent SCE from ensuring the safety of its patrons, employees or the public.

11. The Hoover Electric Service Contract and the Restated and Amended Implementation Agreement should allow SCE to continue to meet its obligations under Pub. Util. Code § 451 to offer safe and reliable service.

Conclusions of Law

1. The Hoover Powerplant is not baseload generation and the EPS rules do not apply to production at Hoover Powerplant.

2. The Hoover ESC limitations on substitute power put the contract in compliance with the "substitute energy purposes" requirements established in D.07-01-039.

3. The Hoover ESC complies with the Emission Performance Standard adopted in D.07-01-039.

4. The Hoover ESC and Agreement are reasonable.

5. SCE's application for approval of its Hoover ESC and Agreement should be granted.

6. SCE's request to recover costs incurred pursuant to the Hoover ESC and Agreement through its ERRA should be granted.

7. Exhibits SCE-01, SCE-01C, SCE-02, and SCE-03 should be identified and received into evidence as of the date of this decision.

8. Exhibit SCE-01C should be admitted under seal for a duration consistent with the timing specified in Exhibit SCE-01: A-5 through A-6.

9. This proceeding is designated a ratesetting proceeding with no hearings necessary.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company's application for approval of its Hoover Electric Service Contract and the Restated and Amended Implementation Agreement is granted.

2. Southern California Edison Company's request to recover costs incurred pursuant to the Hoover Electric Service Contract and the Restated and Amended Implementation Agreement through its Energy Resource Recovery Account is granted.

3. Exhibits SCE-01, SCE-01C, SCE-02, and SCE-03 are identified and received into evidence as of the date of this decision.

4. Exhibit SCE-01C is admitted under seal for a duration consistent with the timing specified in SCE-01: A-5 through A-6. If Southern California Edison Company believes that it is necessary for this information to remain under seal for longer than specified in SCE-01: A-5 through A-6, the utility may file a motion showing good cause for extending this order by no later than 30 days before the expiration of this order.

5. The determination that hearings were needed is changed as no protests were filed.

6. Evidentiary hearings are not necessary.

7. Application 16-08-017 is closed.

This order is effective today.

Dated ____________________________, at San Francisco, California.